



North Korean Counterfeiting of U.S. Currency

Dick K. Nanto

Specialist in Industry and Trade

June 12, 2009

Congressional Research Service

7-5700

www.crs.gov

RL33324

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 12 JUN 2009		2. REPORT TYPE		3. DATES COVERED 00-00-2009 to 00-00-2009	
4. TITLE AND SUBTITLE North Korean Counterfeiting of U.S. Currency				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Congressional Research Service, Library of Congress, 101 Independence Ave., SE, Washington, DC, 20540-7500				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 18	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

Summary

The United States has accused the Democratic People's Republic of Korea (DPRK or North Korea) of counterfeiting U.S. \$100 Federal Reserve notes (Supernotes) and passing them off in various countries, although there is some doubt by observers and other governments that the DPRK is capable of creating Supernotes of the quality found. What has been confirmed is that the DPRK has passed off such bills in various countries and that the counterfeit bills circulate both within North Korea and around its border with China. Defectors from North Korea also have provided information on Pyongyang's counterfeiting operation, although those statements have not been corroborated. Whether the DPRK is responsible for the actual production or not, trafficking in counterfeit has been one of several illicit activities by North Korea apparently done to generate foreign exchange that is used to purchase imports or finance government activities abroad.

Although Pyongyang denies complicity in any counterfeiting operation, at least \$45 million in such Supernotes thought to be of North Korean origin have been detected in circulation, and estimates are that the country has earned from \$15 to \$25 million per year over several years from counterfeiting. The illegal nature of any counterfeiting activity makes open-source information on the scope and scale of DPRK counterfeiting and distribution operations incomplete. South Korean intelligence has corroborated information on North Korean production of forged currency prior to 1998, and certain individuals have been indicted in U.S. courts for distributing such forged currency. Media reports in January 2006 state that Chinese investigators had independently confirmed allegations of DPRK counterfeiting. In June 2009, press reports claimed that the DPRK produced counterfeit U.S. bills even after 2007.

For the United States, the alleged North Korean counterfeiting represents a direct attack on a protected U.S. national asset and may provide a rationale to impose financial sanctions on the DPRK. The earnings from counterfeiting and related activities also could be important to Pyongyang's finances. Profits from any counterfeiting also may be laundered through banks or other financial institutions.

U.S. policy toward the alleged counterfeiting is split between law enforcement efforts and political and diplomatic pressures. On the law enforcement side, individuals have been indicted and the Banco Delta Asia (BDA) bank in Macao (a territory of China) was named as a primary money laundering concern under the Patriot Act. In June 2007, the BDA issue was resolved and the Six-Party Talks resumed. At the time, Pyongyang promised that it would punish the counterfeiters and destroy their equipment. The law enforcement effort has become entwined with diplomatic efforts and pressures to resolve the North Korean nuclear and missile issues. Following North Korea's second nuclear test and several missile launches in May 2009, the United States reportedly has been considering further financial sanctions on the DPRK based partly on its alleged counterfeiting.

Contents

Limits on Information 2

A Criminal State? 3

 Supernote Counterfeiting 4

Denial of Counterfeiting by North Korea..... 7

Policy Implications 8

 Law Enforcement and the Banco Delta Asia Action..... 9

 Political/Security Measures 12

Contacts

Author Contact Information 15

The United States has accused the Democratic People's Republic of Korea (DPRK or North Korea) of counterfeiting U.S. \$100 Federal Reserve notes (Supernotes) and passing them off in various countries. There is considerable doubt, however, that the DPRK is capable of creating Supernotes of the quality found. The existing evidence is considered to be "intelligence" and not disclosed. However, considerable overt links have been uncovered tying Pyongyang to the counterfeiting operation. It is thought that the alleged counterfeiting activity in the DPRK is government sponsored (not criminal activity).¹ What has been confirmed is that the DPRK has passed off such bills in various countries and that the counterfeit bills circulate both within North Korea and around its border with China. In June 2009, press reports claimed that the DPRK produced counterfeit U.S. bills even after 2007.² Even if counterfeit bill production has been halted, genuine Supernotes are expected to remain in circulation for the foreseeable future making it possible for the DPRK to continue to use any existing stocks of counterfeit Supernotes.

The purpose of this report is to provide a summary of what is known from open sources on the DPRK's alleged counterfeiting of U.S. currency, examine North Korean motives and methods, and discuss U.S. interests and policy options.

Although Pyongyang denies complicity in any counterfeiting operation, estimates are that at least \$45 million in such Supernotes of North Korean origin are in circulation and that the country has earned from \$15 to \$25 million per year over several years from counterfeiting.³ South Korean intelligence has corroborated information on past production of forged currency—at least until 1998—and several U.S. court indictments indicate that certain individuals have been accused of distributing such forged currency. In 2009, the State Department reported that counterfeit \$100 U.S. notes (Supernotes) continue to turn up in various countries, including in the United States, although it is not clear whether these notes are new or from existing stocks.⁴ Counterfeiting is considered to be one of several illicit activities by the DPRK apparently done to generate foreign exchange that is used to support the ruling regime, purchase imports, and finance government activities abroad.⁵

For the United States the allegedly large-scale counterfeiting of U.S. currency by the DPRK is a direct challenge to U.S. interests. Any counterfeiting, whether done by North Korea or not, could undermine confidence in the U.S. dollar and, if done extensively enough, potentially damage the U.S. economy. It also is a direct attack on a protected asset of the United States and a violation of U.S. and other laws. If being done by the DPRK government, it violates accepted international norms and is a direct affront to the United States. It also could affect the willingness of financial institutions in certain areas to accept legitimate U.S. currency. Currency dealers in Asia already impose surcharges on suspected types of U.S. bank notes when exchanging them for other currencies.

¹ A news report alaimed that O Kuk Ryol, Vice Chairman of the DPRK's National Defense Commission and his family are taking the lead in the production and circulation of Supernotes. O Kuk ryol reportedly is leading the preparation for the power transfer from current leader Kim Jong-il to his son Kim Jong-un. "Fake N. Korean Supernotes Smuggled into SK," Dong-A Ilbo Online (Seoul), June 4, 2009.

² "Fake N. Korean Supernotes Smuggled into SK," Dong-A Ilbo Online (Seoul), June 4, 2009.

³ See section "Supernote Counterfeiting," below.

⁴ U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *2009 International Narcotics Control Strategy Report, Volume I: Drug and Chemical Control*, Washington, DC, February 27, 2009, Country Reports: North Korea.

⁵ For details, see Staff of U.S. Representative Ed Royce, *Gangster Regime: How North Korea Counterfeits United States Currency*, Staff Report, Washington, DC, March 12, 2007.

U.S. policy toward the alleged counterfeiting is split between law enforcement efforts and political and diplomatic pressures. On the law enforcement side, individuals have been indicted, and in September 2005, the U.S. Treasury named Banco Delta Asia (BDA), bank in the Chinese territory of Macao, as a primary money laundering concern under the Patriot Act, Section 311.⁶ This financial sanction was designed to curb the suspected counterfeiting by preventing the DPRK from laundering proceeds from its illicit activities through BDA. This triggered a financial chain reaction under which banks, not only from the United States but from other nations, declined to deal with even some legitimate North Korea traders. The BDA action froze \$25 million in North Korean accounts and caused financial institutions in other countries also to close many of their North Korean accounts, even those for legitimate business. For the year following the financial restrictions, they were Pyongyang's main complaint and the reason it gave for boycotting the Six-Party Talks on denuclearization. Even after returning to the talks in December 2006, Pyongyang refused to discuss denuclearization officially until the Banco Delta financial sanctions were lifted.⁷ On February 13, 2007, as a sideline to a new Six-Party agreement, the United States assured North Korea that it would settle the BDA issue. It took until June, however, for the \$25 million to be transferred through the New York Federal Reserve Bank to a bank in Russia. North Korea confirmed its receipt on June 25, 2007. At the time, Pyongyang promised that it would punish the counterfeiters and destroy their equipment.

Following the BDA case, law enforcement efforts at the national level have become entwined with diplomatic efforts and pressures to resolve the issue of the North Korean nuclear weapons and potential ballistic missiles. After the DPRK's second nuclear test on May 25, 2009, and several firings of potential ballistic missiles, the United States reportedly has been considering using DPRK counterfeiting of U.S. currency as the basis for additional financial sanctions.⁸

The counterfeiting, to the extent that the DPRK government is involved, affects U.S. national security in a broader sense. North Korea is a Stalinist regime with serious human rights and other problems. It is led by a communist dictator with a taste for luxury imports and need to subsidize his inner circle of supporters and broader ranks of party cadres. Yet the North Korean economy scarcely produces enough to feed its population and incurs a billion-dollar trade deficit each year. Proceeds from counterfeiting could be used to maintain the regime's power or contribute to instability in East Asia.

Limits on Information

Because counterfeiting is a form of clandestine criminal activity, those involved attempt to keep it out of the public eye and undetected to the maximum extent possible. Hence, open source information on the scope and scale of DPRK counterfeiting and distribution operations is largely incomplete. Also, since the DPRK is a relatively closed society, information on any production of

⁶ Section 311 of the Patriot Act authorizes the Treasury to use financial force against foreign jurisdictions, banks, or classes of transactions that are of "primary money laundering concern," to isolate the designated entity and protect the U.S. financial system from tainted capital running through the entity. Section 311 authorizes the Secretary of the Treasury to require U.S. financial institutions to take certain "special measures" against identified targets.

⁷ Kyodo World Service. 6-way Talks' Delegates Leave Beijing After 5-Day Discussions. December 23, 2006. Note: The United States does not consider the actions to be sanctions, but North Korea has characterized them as such.

⁸ Jon Herskovitz, "U.S. Might Impose Counterfeiting Sanctions on North Korea," Global Security Initiative by National Journal Group, June 4, 2009. Online edition.

counterfeit U.S. currency there—other than that received from defectors—is likely to be the product of intelligence sources and methods. Hence, it is unlikely that such information would be made public for fear of compromising ongoing intelligence gathering operations.

On the other hand, involvement of DPRK citizens and officials in the distribution of so called “Supernotes” is more readily demonstrated once criminal investigations have been completed, arrests have been made, indictments issued, and convictions and/or confessions obtained. Indeed, a number of such indictments have been issued, and presumably a number of ongoing investigations remain in the pipeline. U.S. officials appear to be increasingly sensitive to a need to support public allegations with the weight of *de facto* legal evidence.

A Criminal State?

The DPRK government appears to have two major goals: to maintain the ruling regime and to be recognized as belonging to the club of nuclear, space, and newly industrializing economic countries. Both of these goals require funds. North Korea also needs to raise approximately \$1 billion per year to finance its merchandise trade deficit.⁹ The DPRK imports more than it exports and must generate enough foreign exchange to cover the difference through some means—either legal or illegal. Legal means include borrowing, foreign investments, foreign aid, remittances from overseas Koreans, selling military equipment not reflected in trade data, and by selling services abroad. Illegal methods include the counterfeiting of hard currency, illegal sales of military equipment or technology, sales of illegal drugs or counterfeit cigarettes and pharmaceuticals, or by shipping illegal cargo between third countries. The country also can dip into its meager foreign exchange reserves.

Allegations of counterfeiting by North Korea fits into a pattern of illicit activities linked to Pyongyang. These include production and trafficking in counterfeit cigarettes and counterfeit pharmaceuticals (for example “USA” manufactured Viagra).¹⁰ However, according to a 2009 report by the State Department, drug trafficking by the DPRK appears to be down considerably with no instances of drug trafficking suggestive of state-directed trafficking for six years, but there still is insufficient evidence to say for certain that state-sponsored trafficking has stopped. However, reports of non-narcotics-related acts of criminality suggest that DPRK tolerance of criminal behavior may exist on a larger, organized scale, even if no large-scale narcotics trafficking incidents involving the state itself have come to light. Reports continue from the press, industry, and law enforcement agencies of DPRK links to large-scale counterfeit cigarette trafficking in the North Korean Export Processing Zone at Rajiin. According to the State Department, however, it is unclear the extent to which DPRK authorities are complicit in this illegal activity, although it is all but certain that they are aware of it. The State Department also reported that counterfeit \$100 U.S. notes (Supernotes) continue to turn up in various countries, including in the United States. There are reports, for example, of supernote seizures in San Francisco, and a very large supernote seizure in Pusan, South Korea.¹¹ Supernotes are uniquely

⁹ Note that such estimates of scale of the DPRK’s foreign exchange deficit may be exaggerated as the amount may be offset by undetermined amounts of aid from the Peoples Republic of China.

¹⁰ In July 2004, for example, the U.S. Secret Service reportedly uncovered a network selling counterfeit North Korean made cigarettes, pharmaceuticals, and \$100 bills. See Frederik Balfour et. al., “Fakes,” *Business Week*, February 7, 2005. Criminal indictments subsequently ensued. See generally: BBC News, “What is a superdollar?”, June 20, 2004.

¹¹ Kim Rahn, “9,900 Supernotes Smuggled Into S. Korea,” *Korea Times*, June 4, 2009.

associated with the DPRK, but it is not clear if recent seizures are of notes which have been circulating for some time, or if they are recently issued new notes.¹²

According to the State Department, there also has been substantial evidence that North Korean governmental entities and officials have been involved in the laundering of the proceeds of narcotics trafficking and other illicit activities and that they have been engaged in other illegal activities, including activities related to counterfeiting, through a number of front companies.¹³

Supernote Counterfeiting

DPRK production and trafficking of “Supernotes” have been addressed in 2006 by National Intelligence Director John Negroponte in testimony before Congress. He stated that North Korea “produces and smuggles abroad counterfeit U.S. currency as well as narcotics and other contraband.”¹⁴

In a Senate Committee on Government Affairs hearing in 2003, William Bach, the Director of the Office of African, Asian and European Affairs in the Bureau for International Narcotics and Law Enforcement Affairs of the U.S. Department of State, stated:

The U.S. Secret Service Counterfeit Division is aware of numerous cases of counterfeiting with North Korean connections. Typical of such cases was one reported in Macao in 1994, when North Korean trading company executives, who carried diplomatic passports, were arrested for depositing \$250,000 in counterfeit notes in a Macao bank. There are numerous other counterfeiting incidents with links to Macao banks, North Korea, and North Korean diplomats.¹⁵

Counterfeiting of foreign currency is apparently a phenomenon that is not new to the government of North Korea. Seoul’s War Memorial Museum reportedly contains DPRK-manufactured South Korean currency from the 1950’s, the production of which reportedly continued into the 1960s.¹⁶

¹² U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *2009 International Narcotics Control Strategy Report, Volume I: Drug and Chemical Control*, Washington, DC, February 27, 2009, Country Reports: North Korea.

¹³ United States Department of State, Bureau for International Narcotics and Law Enforcement Affairs, *2009 International Narcotics Control Strategy Report, Volume I: Money Laundering and Financial Crimes*, Washington, DC, February 27, 2009, p. 316.

¹⁴ See testimony of John Negroponte before the Senate Intelligence Committee on the issue of Worldwide Threats to the United States, February 2, 2005. Note that Negroponte’s remarks came at a time when the six-party talks on North Korea’s nuclear ambitions remained stalled over North Korea’s insistence that the United States remove proposed Treasury Department sanctions against Banco Delta Asia for its alleged role in laundering proceeds of DPRK criminal activity and distributing of DPRK produced counterfeit U.S. currency. See “North Korean Counterfeiting Complicates Nuclear Crisis,” by Martin Fackler, *New York Times*, January 29, 2006, p. 3.

¹⁵ Bach, William. Hearing Testimony. Drugs, Counterfeiting, and Weapons Proliferation: The North Korean Connection. Hearing Before the Financial Management, the Budget, and International Security Subcommittee of the Committee on Governmental Affairs, United States Senate 108th Congress, First Session, S.Hrg. 108-157, May 20, 2003, p. 6.

¹⁶ See “The ‘Soprano State?’ North Korean Involvement in Criminal Activity and Implications for International Security,” by Sheena E. Chestnut (hereinafter cited as *Chestnut*), Stanford University Honors Thesis, May 20, 2005, p.81 citing Cumings, Bruce, *Korea’s Place in the Sun: A Modern History* (Norton, New York) 1997, and Michishita, Narushigwe, “Calculated Adventurism: North Korea’s Military-Diplomatic Campaigns,” *Korean Journal of Defense Analysis*, Vol. XVI, No.2, Fall 2004. Note that the term “Soprano State” was originally coined by *U.S. News and World Report* investigative journalist David Kaplan in 2003; see “The Far East Sopranos,” by David E. Kaplan, *U.S. News* (continued...)

South Korean media reports cite a 1998 South Korean National Intelligence Service (NIS) Report to the effect that North Korea forges and circulates U.S. \$100 banknotes worth \$15 million a year. Subsequent reports to the South Korean National Assembly in the same year and in 1999 are cited in the media as stating that North Korea operates three banknote forging agencies and that more than \$4.6 million in bogus dollar bills had been uncovered on thirteen occasions since 1994.¹⁷

Press reports of February 2, 2006 cite the account by a Uri Party Member of South Korea's Parliament of a closed briefing by South Korea's National Intelligence Service to members of Korea's National Assembly to the effect that North Koreans were arrested abroad for counterfeiting offenses in the 1990s but that the Service had no evidence of the North making bogus currency after 1998.¹⁸ Informed South Korean sources have confirmed the above stated content of the briefing, but insist that the NIS lack of hard evidence of DPRK Supernote production after 1998 should not necessarily be construed to mean that such activity has ceased. Post-1998 South Korean media reports note that South Korean authorities have continued to seize bogus U.S. currency—including 1,400 counterfeit U.S. \$100 bills in April 2005, but that they have not traced the source.¹⁹ Subsequent press reports state that the United States has provided South Korea with examples of DPRK source counterfeit 2001 & 2003 series \$100 notes. Moreover, the U.S. has reportedly determined that at least \$140,000 worth of counterfeit notes seized by South Korean police in April 2005 was manufactured in the DPRK as part of a batch produced in 2001, and distributed by Pyongyang.²⁰

On June 13, 2003, South Korea, the United States and Japan held a North Korea policy coordination group meeting and announced an agreement that reportedly stated, "The three countries' delegations express concern about the illegal activities of organizations in North Korea, including drug smuggling and money counterfeiting."²¹ Moreover, media reports on January 20,

(...continued)

and *World Report*, January 27, 2003.

¹⁷ See "Seoul's U-Turn on N. Korean Counterfeiting Could be Fatal," *Chosun Ilbo* (English Edition), December 25, 2005. The title of the 1988 report is cited as "A New Threat in the 21st Century: Realities and Responses to International Crimes."

¹⁸ See "Korea Exchange Bank cuts ties with Macau bank accused of laundering money for North Korea," *Associated Press Report* (Seoul) February 3, 2006. See also "No sign of North Korea making fake bills since 1998: spy agency," *Yonhap*, February 3, 2006. Note that media reports contain at least a handful of reports by defectors that lend credence to the notion that the DPRK produced counterfeit greenbacks under government direction prior to 1996. For a consolidated overview of such reports see Sheena Chestnut, *Soprano State*, pp. 86-89.

¹⁹ See "Seeking international cooperation to stop manufacturing of North Korea's money," *Chosun Ilbo* (Internet Version), December 27, 2005. Media report suggestions that the DPRK may have ceased production of counterfeit greenbacks prior to the end of 1998, however, may be contradicted by at least one defector who fled the North in 2000. According to one press report, the defector, a chemist connected to the Sean Garland case, was reportedly part of a team of North Korean experts ordered to produce fake U.S. \$100 bills. However, what is publically known about him, his activities, and their connection to the DPRK regime appears at this point to be anecdotal and sketchy at best. See "Counterfeiting cases point to North Korea," by Josh Meyer and Barbara Demick, *L. A. Times*, December 12, 2005. Note that often statements by individuals termed "North Korean defectors," have been considered unreliable when it comes to intimate knowledge of highly secretive, closed, DPRK programs.

²⁰ See "U.S. says S. Korea fake notes made in North," by Jon Herskovitz and Jack Kim, Reuters, February 27, 2006. Accounts in subsidiaries of the Bank of China, Hong Kong have been frozen as a result of reported links to the DPRK's trade in Supernotes, and other criminal activities. See "HK link to Pyongyang 'Supernotes' N Koreans have cut counterfeit deals in the city, with payments made via Bank of China subsidiary," by Greg Torode, *South China Morning Post*, February 26, 2006.

²¹ See "Seeking international cooperation to stop manufacturing of North Korea's money," *Chosun Ilbo* (Internet Version), December 27, 2005.

2006, stated that Chinese investigators have independently confirmed allegations of DPRK counterfeiting.²²

Arrests and indictments point to DPRK trafficking in bogus U.S. currency. In August 2005, federal law enforcement authorities completed two undercover operations in New Jersey and in California which focused on the activities of members of China's Triad criminal syndicates. The operations, named Royal Charm and Smoking Dragon, reportedly netted some \$4 million in Supernotes believed to be of North Korean origin. Illicit narcotics, and counterfeit brand cigarettes and pharmaceuticals were seized as well.²³

One of the indictments issued in the above cited cases identifies Chao Tung Wu, a Taiwanese in custody for dealing in counterfeit bills, and alleges that he told undercover agents that the government of a nation—identified in the indictment as “country 2”—was producing counterfeit notes.²⁴ Country two has been widely cited in the media as being North Korea. Another law enforcement operation led to the arrest in Northern Ireland of Sean Garland, a leading member of an Irish Republican Army faction on charges of circulating more than \$1 million of Supernotes (believed to be DPRK government produced) in Britain and Eastern Europe.²⁵ A request for his extradition to the United States ensued in mid-October 2005.

As recently as March 2006, counterfeit Supernotes were reportedly seized by police in Hong Kong from a Chinese-American man in transit from Macau.²⁶ In April 2006, a Korean reporter claimed in an article in a South Korean newspaper that obtaining fake \$100 bills that likely were manufactured in North Korea was a “piece of cake” in the Chinese town of Dandong just across the DPRK's northern border. According to the reporter, counterfeit bills similar to real currency fetch about 40% of their face value. Carefully manufactured \$100 Supernotes go for \$60 to \$70 each. North Koreans refer to the counterfeit dollars as “kattalio” and the business of dealing in them as “the kattalio game.” After the Banco Delta financial sanctions, the article stated that Pyongyang proclaimed that anyone involved in illegal drugs or fake notes would be severely punished. In March 2006, two men convicted of such activities were publicly executed. Since the Banco Delta sanctions, the number of counterfeit notes circulated through North Korea reportedly has dropped.²⁷ However, it may be that the number of counterfeit notes circulating within North Korea has increased since imposition of the Banco Delta sanctions.²⁸

²² See “North Korean Counterfeiting Complicates Nuclear Crisis,” by Martin Fackler, *New York Times*, January 29, 2006, p. 3.

²³ See generally, remarks of Acting Assistant Attorney General, John C. Richter of August 22, 2005 http://www.usdoj.gov/criminal/pr/speeches/2005/08/2005_4193_rmrksOprSmokngDrgnNroylChrm082405O.pdf.

²⁴ See “Arrest ties Pyongyang to counterfeit \$100 bills,” by Bill Gertz, *Washington Times*, September 20, 2005, p. A1.

²⁵ See “North Korean Counterfeiting Complicates Nuclear Crisis” by Martin Fackler, *New York Times*, January 29, 2006, p. 3. See “Garland stands accused by US over counterfeit made in North Korea,” *Irish Times*, October 17, 2005. Garland was arrested October 7, 2005, as a result of pending U.S. proceedings against him. See also Department of Justice Press Release of October 8, 2005, on Arrest of Leader of Irish Workers Party.

²⁶ Torode, Greg. “Fake US Supernotes Find Their Way to HK. Pyongyang's Counterfeit Bills Are Seized from American in Transit.” *South China Morning Post*, March 5, 2006, p. 3. Supernotes have reportedly shown up on 2005-2006 in Peru, Paraguay, Mongolia, Hong Kong, and Ethiopia.

²⁷ Kwak Tae-chung. Getting North Korean-made Counterfeit Notes is a “Piece of Cake”—Supernotes Identical to Real Ones Circulated Through the North Korea-China Border—The Powerful Economic Sanctions by the United States Has Reduced the Quantity. *Seoul Weekly Dong-A*, April 25, 2006, pp. 30-31. Original article in Korean, translated by the Open Source Center as ROK Weekly on Decreases in Circulation of DPRK-made Illegal Products in China.

²⁸ See Interview with Kansai University's Professor (Young Hwa?) Lee carried by Japan's TBS-TV, in an interview (continued...)

In July 2007, a South Korean newspaper reported that \$100 Supernotes were circulating among North Korean merchants at a value of \$70 each. The reason for using the counterfeits given by the merchants was that the largest denomination of the DPRK won was 5,000 which implied that it took about 600 bills for a \$1,000 transaction. So they used counterfeit bills as a medium of exchange. At the time, inflation also was causing the purchasing power of the won to depreciate rapidly.²⁹

Denial of Counterfeiting by North Korea

The DPRK has consistently denied allegations of state involvement in criminal activity, specifically in any counterfeiting activity, and it has vowed to resist U.S. Pressure over the matter.³⁰ A January 24, 2006 commentaries carried by the state-run Korean Central News Agency reported that Pyongyang “does not allow such things as bad treatment of the people, counterfeiting, and drug trafficking.”³¹ In what may be an indication of DPRK willingness to curb any illicit counterfeiting activity, the DPRK Foreign Ministry announced on February 9, 2006, that “there is no evidence proving (North Korea’s) issue of counterfeit notes or money laundering” but that the country “will as ever actively join the international actions against money laundering.... It is the consistent policy of the (North Korean) government to oppose all sorts of illegal acts in the financial field.” The Foreign Ministry spokesman went on to say that the DPRK has “perfect legal and institutional mechanisms to combat such illegal acts as counterfeiting notes and money laundering, and any illegal acts are liable to severe punishment.”³²

Some observers also doubt that the DPRK has the technology or resources needed to produce the high-quality bills. They have pointed to the successive versions of the Supernotes found and the high cost of equipment and supplies. One has concluded that the Supernotes are an illegal printing of the genuine note.³³

Assuming that production of bogus U.S. currency is actually taking place in North Korea, some suggest that this does not necessarily mean that such activity is being done under government sponsorship, direction, or supervision. They argue that counterfeiting is a criminal phenomenon

(...continued)

during a program on “Narcotics Economy in the Making of North Korea,” January 16, 2007, 17:30-18:30 local time.

²⁹ “Fake dollars circulated as ‘official currency’ in North Korea,” *The Daily NK (Reported by BBC Monitoring Asia Pacific, March 26, 2008, July 31, 2007, Internet edition.*

³⁰ A Swiss report on North Korean counterfeiting is reported to have expressed serious doubt that North Korea is capable of manufacturing the fake bills, which it said were superior to the real ones. See Hall, Kevin G., Swiss Authorities Question U.S. Counterfeiting Charges against North Korea, McClatchy Newspapers, May. 22, 2007 http://www.mcclatchydc.com/staff/kevin_hall/v-print/story/16472.html

³¹ This is but one of a string of DPRK denials. David L. Asher, former Coordinator of the State Department’s North Korea Working Group, in his February 1, 2006 remarks to the American Enterprise Institute cited another DPRK denial: “We had neither counterfeited currency nor gotten involved in any illegal trafficking.”

³² See KCNA (official North Korean News Agency) broadcast of 1006 GMT, February 9, 2006. Reported in “North Korea vows to join international anti-money laundering drive,” *MSN News*, February 9, 2006, and untitled AP report from Seoul of February 9, 2006. Statements by a DPRK Foreign Ministry spokesperson are typically reserved for high level communications with the outside world. Reuters and Agence France Presse (AFP) reported on the broadcast as well.

³³ Kevin G. Hall, “Mysterious \$100 “supernote” counterfeit bills appear across world,” *McClatchy Newspapers*, January 12, 2008, carried in the *Kansas City Star*.

that is widespread throughout the world, and it is rarely, if ever, state-sponsored. Others say that there may be merit to such arguments, but North Korea could be an exception to any such norms. North Korean defectors have pointed to government sponsorship of counterfeiting, but their testimonies have not been corroborated.

It can be said that it is widely acknowledged that the Pyongyang regime engages—or has engaged—in a broad range of *other* crime for profit activity. Hence, inhibitions against counterfeiting may not be strong. The sophisticated type of equipment reportedly required for the production of Supernotes is generally tightly controlled and generally restricted for sale to governments. Finally, North Korea is a closed authoritarian regime, and, as such, it is unlikely that any counterfeiting activity—which requires centralized production—would not be government sponsored, or at some point, come under government control.

Policy Implications

For the United States the North Korean counterfeiting of U.S. currency combined with secondary effects has a direct bearing on U.S. interests. Counterfeiting of one nation's currency by another generally is considered to be an act of economic warfare—a direct attack on the U.S. financial system.³⁴ There is a large difference between criminal counterfeiting by private parties and that done or sanctioned by a nation. The counterfeiting, itself, might undermine confidence in the U.S. dollar and, if done extensively enough, potentially damage the U.S. economy. If the extent of counterfeiting were in the range of \$15 million to \$25 million per year, however, this would represent a relatively small amount compared with the total U.S. supply of currency or the amount circulating abroad. As of February 2006, currency in circulation—that is, U.S. coins and paper currency in the hands of the public—totaled about \$780 billion. Since 1994, the value of currency in circulation has risen at the rate of 6.5% per year, mostly stemming from foreign demand. The U.S. Federal Reserve estimates that between one-half and two-thirds of the value of currency in circulation is held outside the United States.³⁵ In the United States, most domestic transactions (by value) are done either electronically or by checks, not cash. As of December 2008, 73% of the value of currency in circulation consisted of \$100 notes (\$625 billion), the denomination allegedly counterfeited by the DPRK.³⁶

Counterfeiting also can reduce the confidence by foreigners in the dollar. The dollar has become the predominant medium of exchange in international transactions. Such degraded confidence in the dollar usually can be manifested either by a surcharge on certain denominations when converting dollars to foreign exchange or in certain denominations of the dollar not being accepted at all. Currently, this affects Americans and other holders of dollar currency who rely on cash for transactions rather than credit cards, checks, or bank transfers. If the counterfeiting were to become extensive enough, however, it might depress the overall exchange value of the dollar.

³⁴ Asher, David L. "The North Korean Criminal State, its Ties to Organized Crime, and the Possibility of WMD Proliferation." The Nautilus Institute. Policy Forum Online 05-92A: November 15th, 2005.

³⁵ The Federal Reserve Board. Currency and Coin Services. On Internet at <http://www.federalreserve.gov/paymentsystems/coin/default.htm>.

³⁶ The Federal Reserve Board. Currency in Circulation: Value. On Internet at <http://www.federalreserve.gov/paymentsystems/coin/currcircvalue.htm>.

Even though the suspected amount of counterfeiting by the DPRK is relatively small when compared with all U.S. currency in circulation, its importance to Pyongyang and the ruling communist party could be significant. It apparently helps fund travel abroad, meet “slush fund” purchases of foreign goods, and subsidize the lifestyles of the privileged class in Pyongyang.

Even though the macroeconomic effect of a counterfeiting operation generating around \$15 million to \$25 million per year is minor, counterfeiting, itself, is a violation of U.S. law. The Treasury, including the Secret Service, and the Federal Reserve have primary responsibilities for addressing the counterfeiting of U.S. currency. The Federal Reserve’s role is to distribute and ensure the physical integrity, including the authenticity, of U.S. currency. The Secretary of the Treasury is responsible for issuing and protecting U.S. currency. The Bureau of Engraving and Printing produces the currency. It has announced that one of its priorities for FY2007 is to redesign the \$100 note.³⁷ The Secret Service conducts investigations of counterfeiting activities, provides counterfeit-detection training, and is responsible for anticounterfeiting efforts abroad.³⁸

So far, the United States had taken a two-pronged (but overlapping) approach toward North Korea’s alleged counterfeiting activities: law enforcement and political/security pressures. The law-enforcement prong involves prosecuting or sanctioning individuals and/or institutions involved in the distribution of the bogus currency.

Law Enforcement and the Banco Delta Asia Action

There have been several criminal prosecutions of persons in which counterfeit currency thought to have come from North Korea has been involved. This includes seeking extradition for Sean Garland, former President of the Workers’ Party of Ireland, who is accused of conspiring with others, including elements of the government of North Korea, to establish a counterfeiting operation involving production of almost perfect copies of U.S. dollars³⁹ and large U.S. sting operations, named Royal Charm and Smoking Dragon, that reportedly netted some \$4 million in Supernotes believed to be of North Korean origin. Illicit narcotics, and counterfeit brand cigarettes and pharmaceuticals were seized as well.⁴⁰

On September 15, 2005, the U.S. Treasury imposed USA PATRIOT Act Section 311 designations against Banco Delta Asia (BDA) in Macau. In the action, Treasury stated that the bank was a “primary money laundering concern” because, among other findings, sources indicated that “senior officials in Banco Delta Asia are working with DPRK officials to accept large deposits of cash, including counterfeit U.S. currency, and agreeing to place that currency into circulation.”⁴¹

³⁷ The Department of the Treasury. *Budget in Brief FY2007*. p. 87.

³⁸ U.S. General Accountability Office. Testimony. Counterfeit U.S. Currency Abroad: Observations on Counterfeiting and U.S. Deterrence Efforts. February 27, 1996 (GAO/T-GGD-96-82).

³⁹ “US Pursues ‘Sick Old Republican’ in Counterfeit Scam,” *The Sunday Independent (Ireland)*, February 1, 2009.

⁴⁰ See generally, remarks of Acting Assistant Attorney General, John C. Richter of August 22, 2005, http://www.usdoj.gov/criminal/pr/speeches/2005/08/2005_4193_rmrksOprSmokngDrgnNroylChrm082405O.pdf.

⁴¹ The Department of the Treasury. Treasury Designates Banco Delta Asia as Primary Money Laundering Concern under USA Patriot Act. Press Release JS-2720. September 15, 2005. See *Federal Register*, Vol. 70 No. 181, September 20, 2005 (Notices), p. 55214. The finding asserts that at least one regular North-Korean-front client of BDA was widely reported to be conducting “numerous illegal activities, including distributing counterfeit currency and smuggling counterfeit tobacco products” for over a decade. See also Department of Treasury Press Release of September 15, 2005 (JS-2720), on Treasury Designation of Banco Delta Asia as a Primary Money Laundering Concern and Treasury Dept. FINCEN Advisory of December 13, 2005, on Guidelines to Financial Institutions on the Provision of Banking Services (continued...)

On September 20, 2005, the Financial Crimes Enforcement Network of Treasury imposed special measures against Banco Delta Asia that prohibited U.S. institutions or agencies from opening or maintaining correspondent accounts on behalf of BDA and required covered financial institutions to exercise due diligence to ensure that no correspondent account is being used indirectly to provide services to BDA.⁴²

The U.S. action against Banco Delta Asia caused an avalanche of responses both in financial and political circles. It caused such a run on accounts at the bank that the government of Macau had to take over BDA's operations and place a temporary halt on withdrawals. According to press reports, the Macau government shut down all North Korea-related accounts including those belonging to 9 DPRK banks and 23 DPRK trading companies. These reportedly included accounts from the core organs of the North Korean Regime.⁴³ When details of the accounts reached Kim Jong-Il, he reportedly was surprised to find that some accounts had been kept secret from him and some account-holders either did not exist or had already died.⁴⁴

The financial effects of the BDA action were larger than expected. The crackdown also spread around the region, with Chinese, Japanese, Vietnamese, Thai, and Singaporean banks making life much tougher for North Korean account holders. In Macau, the North Korean trading firm used by Pyongyang as a de facto consulate rolled up its operations as the Macau government placed Banco Delta Asia into receivership. Not only did the action deprive major DPRK companies of an international financial base and cut into the secret personal accounts of the Pyongyang leadership, but it appears to have obstructed some legitimate North Korean trade. DPRK banks and traders reportedly are having difficulty finding other lenders to conduct their overseas business. Banks from other nations (such as the United Overseas Bank of Singapore and the Korea Exchange Bank of South Korea) have moved to sever contacts with North Korea, fearing that they, too, could face U.S. legal action.⁴⁵

On March 7, 2006, North Korea's Li Gun (head of the North America division of North Korea's Foreign Ministry) met with Assistant U.S. Treasury Secretary Daniel Glaser at the United Nations in New York as part of a back channel for communicating with each other.⁴⁶ The U.S. side spent about 20 minutes explaining its actions against Banco Delta Asia and what it expected from the DPRK. The DPRK reportedly suggested several actions to resolve the issue and for it to return to

(...continued)

to North Korean Government Agencies and Associated Front Companies Engaged in Illicit Activities which encourages financial institutions worldwide to take precautions that they are not used as a conduit for the laundering of proceeds of DPRK illicit activities.

⁴² See *Federal Register*, Vol. 70 No. 181, September 20, 2005 (Notice of Proposed Rulemaking) p. 55217ff.

⁴³ See *Wall Street Journal Asia*, "North Korea's economy feels fallout of U.S. move—Lenders sever ties after sanction threat against Macau bank," by Gordon Fairclough, February 14, 2006. Note that as generally private North Korean individuals do not hold accounts outside the country, widespread speculation exists that the nine individual accounts seized belong to the upper echelons of the DPRK elite. The U.S. has accused Banco Delta Asia of accepting and circulating DPRK origin Supernotes.

⁴⁴ General Secretary Kim Did Not Know the Existence of Some North Korean Accounts Frozen in Macau. *Sentaku*, July 1, 2007, p. 21. (Original in Japanese, translated by Open Source Center, article No. JPP20070728032001)

⁴⁵ Fairclough, Gordon. "Politics & Economics: Banks Cut Ties to North Korea—U.S. Threat Toward One Lender Has Surprisingly Big Ripple Effect." *The Wall Street Journal*, February 14, 2006. P. A6.

⁴⁶ U.S. Department of the Treasury. Treasury Officials Brief North Koreans on Actions to Stem DPRK Illicit Financial Activity. Press Release JS-4099, March 7, 2006. "N. Korea Agrees to Discuss Counterfeit Issue with U.S." *The Chosun Ilbo*. (Digital edition) February 24, 2006.

the six-party talks (including the lifting of the financial sanctions on Banco Delta Asia, forming a joint U.S.-North Korean task force to examine the counterfeiting concerns, giving North Korea access to the U.S. banking system, and providing North Korea with technical help on identifying counterfeit bills).⁴⁷ Separately, the U.S. ambassador in Seoul indicated that Washington wanted Pyongyang to prove that tools used to counterfeit U.S. currency had been destroyed as evidence that North Korea had abandoned such illegal activities.⁴⁸

In December 2006, North Korea agreed to return to the six-party talks, but during the talks Pyongyang refused to discuss denuclearization officially until the Banco Delta financial sanctions were lifted.⁴⁹ Pyongyang, however, did send the president of the Foreign Trade Bank of North Korea (Oh Gwang-chul) along with other financial experts to meet with Deputy Assistant Treasury Secretary Daniel Glaser in the first meeting of a working group on U.S. financial sanctions that met alongside six-party talks. A second meeting was held in January 2007. In these talks, the U.S. side reportedly stated that the BDA issue could be resolved early if North Korea punished the counterfeiters and destroyed their equipment.⁵⁰ This was viewed by some as an easing of the U.S. position as it linked the BDA action to the six-party talks and opened the possibility for resolving the BDA issue in order for the talks to go forward. The Bush Administration had held that the U.S. financial sanctions against Banco Delta for collaboration with North Korean criminal activities were a separate issue from the nuclear negotiations.

On February 13, 2007, a new six-party agreement on North Korea's nuclear program and energy needs was concluded.⁵¹ In announcing this Agreement, Assistant Secretary of State Hill pledged to settle with North Korea within 30 days the issue of U.S. financial sanctions against the Banco Delta bank and the freezing of North Korean accounts of \$25 million in Banco Delta. After several failed attempts to transfer the \$25 million, the DPRK recovered its funds in June 2007 when the New York Federal Reserve Bank agreed to transfer them through its facilities to a bank in Russia. (The transfer through the Federal Reserve Bank arguably made the funds no longer illicit.) This allowed the DPRK to proceed with its commitments under the February 13 agreement.

Since Portugal has returned Macao to China, Beijing had supervisory responsibility over Banco Delta Asia. China has been attempting to modernize its banking system, and for one of its banks to be accused of money laundering clearly did Beijing no good. This has placed pressure on China to ensure that Banco Delta Asia and other banks are clean. Immediately after the Banco Delta action, major Chinese banks dealing with foreign exchange reportedly refrained from transactions with North Korean-related firms.⁵² China conducted a three-month investigation of the accusations against Banco Delta Asia that, according to South Korean diplomatic sources,

⁴⁷ Kessler, Glenn. N. Korea Sets Terms for Return to Nuclear Talks. *The Washington Post*, March 9, 2006. P. A16. DPRK Reportedly Proposed 'Method' to Resolve Financial Dispute, Waits for US Response. Open Source Center report of Yonhap news article: N. Korea Vows Not To Join Nuclear Talks Unless U.S. Sanctions Are Lifted, March 8, 2006. Center-Left ROK Daily Carries Exclusive Interview With DPRK Delegate to New York Meeting. Open Source Center report of article in *Seoul Hankyoreh* (Internet version) in Korean. March 8, 2006.

⁴⁸ Herskovitz, Jon and Jack Kim. U.S. Says S. Korea Fake Notes Made in North. Reuters News, February 22, 2006.

⁴⁹ Kyodo World Service. 6-way Talks' Delegates Leave Beijing After 5-Day Discussions. December 23, 2006. Note: The United States does not consider the actions to be sanctions, but North Korea has characterized them as such.

⁵⁰ U.S. Offers Compromise Over N. Korea's Dollar Forgeries. *Chosun Ilbo* (Digital Chosun), December 20, 2006.

⁵¹ For details, see CRS Report RL33567, *Korea-U.S. Relations: Issues for Congress*, by Larry A. Niksch.

⁵² Chinese Banks Cut Transactions with North Korea-related Firms (From Kyodo News Service). BBC Monitoring Asia Pacific. March 13, 2006.

confirmed the suspicions. However, a confidential audit of the BDA by Ernst & Young ordered by Macanese banking regulators reportedly found no evidence that the bank knowingly laundered counterfeit U.S. currency on behalf of North Korea.⁵³ China reportedly tried to convince North Korea, however, that it needed to take steps in the matter.⁵⁴ Traditionally, North Koreans have used Chinese banks for many of their international transactions, and some surmise that Kim Jong-il's trip to southern China in January 2006 may have included an attempt to move some North Korean accounts to a financial institution there. The U.S. Treasury has said that some reports suggest that North Korean agencies had transferred assets to banks in China.⁵⁵ Others note that Austrian banks had not refrained from making transactions with North Korea.⁵⁶

Political/Security Measures

The political/security prong attempts to stop the alleged counterfeiting activity by changing the cost-benefit calculus of decision makers in Pyongyang. The strategy is to increase costs and reduce benefits in order to induce decision makers to halt the activity. The inducements used are aimed primarily at raising costs and include the Illicit Activities Initiative, the Proliferation Security Initiative, diplomatic pressures, as well as possible military threats and other policy related measures.

The Illicit Activities Initiative, coordinated by the U.S. Department of State, is aimed precisely at North Korea's alleged counterfeiting and other illicit activities. It was developed in cooperation with other nations,⁵⁷ but was downplayed as a diplomatic solution to the North Korean nuclear issue was pursued during the waning years of the G.W. Bush administration. The initiative reportedly now is located in the Korea Desk at the State Department.

The Proliferation Security Initiative (PSI) is part of the larger counter proliferation effort worldwide and aimed at more countries and groups than just North Korea—but the DPRK does receive a particular focus. The PSI activity has received support from more than 60 countries and more formal participation from 11 countries, particularly Japan, Australia, the United Kingdom, France, Germany, Italy, and Spain. Under the PSI, participating countries cooperate to prevent transfers of weapons of mass destruction-related items to or from nation states and non state actors of proliferation concern. It does this through intelligence sharing, diplomatic efforts, law enforcement, and interdiction.⁵⁸ Following the DPRK's second nuclear test, South Korea announced that it was joining the PSI. Pyongyang considered this to be equivalent to a

⁵³ Hall, Kevin G. *Macau Bank Audit Comes Up Clean*, *News & Observer*, Raleigh, N.C., April 17, 2007. pg. A.3. (The audit was obtained by the McClatchy Newspapers.)

⁵⁴ ROK Daily Cites Diplomatic Source: PRC Confirms DPRK Money-Laundering in Macau. Open Source Center report of article by *Chosun Ilbo* (WWW-Text in English), January 11, 2006. [*Chosun Ilbo* headline: "China Finds N.Korea Guilty of Money Laundering"]

⁵⁵ Treasury Issues Advisory on North Korean Banking. Bulletin News Network, the White House Bulletin, March 16, 2006.

⁵⁶ Major Chinese Banks Refrain From Dealing with N. Korean Firms. Kyodo News. March 13, 2006.

⁵⁷ James A. Kelly. An Overview of U.S.-East Asia Policy, Testimony before the House International Relations Committee, Washington, DC. June 2, 2004.

⁵⁸ U.S. Department of State. Bureau of Nonproliferation. The Proliferation Security Initiative (PSI) (Fact Sheet). May 26, 2005. Congressional Research Service CRS Report RS21881, *Proliferation Security Initiative (PSI)*, by Sharon Squassoni.

“declaration of war” and indicated that it no longer is bound to the Korean War armistice and will militarily respond to any foreign attempt to inspect its ships.⁵⁹

The U.N. resolution being considered in June 2009 reportedly contains provisions for tightening provisions for searching ships (under specific conditions) suspected of carrying banned nuclear or missile cargo.⁶⁰

Policymakers reportedly are divided on the ultimate goal of squeezing North Korea on its alleged illicit activities. A group of policymakers (sometimes referred to as the “hawks”) favoring regime change seeks ultimately to induce a crisis within the DPRK that would lead to the downfall of Kim Jong-il. One way to achieve this is to cut off the money the DPRK generates from counterfeiting, selling illicit drugs, and exporting missiles. A second group of policymakers more in favor of engagement, seeks to resolve the North Korean problem mainly by negotiations. Its goal is to change the “bad behavior” of the DPRK by bringing the country into the circle of peaceful nations and inducing it to act in accord with international standards.⁶¹ Each group backs initiatives to curb Pyongyang’s alleged counterfeiting, but each sees the measures in a different light.

The position of the United States is that counterfeiting is an illegal activity that cannot be allowed to continue. The South Korean government also has taken a firm position on the counterfeiting issue. It has clearly communicated to North Korea that such illicit activities are not acceptable and that Pyongyang should unequivocally turn away from such illicit behavior once and for all.⁶² Seoul reportedly has tried in vain to reach a compromise with the United States to consider Pyongyang’s counterfeiting activities illegal conduct by individual North Korean firms and not by the government of the DPRK.⁶³ One observer stated that the bigger question being asked by China and South Korea is why is the United States has been chasing after North Korea’s “loose change” when the country is making plutonium, the real currency of state power?⁶⁴

The response by other nations to the alleged counterfeiting by the DPRK is intertwined with other strategic and political interests. In the case of South Korea, President Lee Myung-bak has taken a much harder line toward the DPRK in contrast to the previous administration that was seeking some compromise with the United States on the degree of financial and other pressure to exert on Pyongyang.

The basic interests of the United States lie in stopping the proliferation of weapons of mass destruction and in denuclearization, but financial sanctions can be pursued independently of those

⁵⁹ “S. Korea joins PSI, North irate,” *UPI.com*, May 27, 2009.

⁶⁰ Colum Lynch and Blaine Harden, “Major Powers Approve Draft U.N. Resolution on North Korea,” *Washington Post*, June 11, 2009, Internet edition.

⁶¹ Sanger, David. Questions Without Answers: the Korean Conundrum [Review]. *The New York Times*, January 19, 2006. Pg. E.9.

⁶² Ambassador Lee Tae-sik’s Speech Given at the St. Regis Hotel (Washington, DC). The Korea-US Alliance - A Partnership for the Future, February 7, 2006. Korea Economic Institute. <http://www.keia.com/2-Publications/2-6-Other/LeeTSspeech.pdf>.

⁶³ ROK Editorial Says ROK-US ‘Discord’ Over DPRK Counterfeiting ‘Worrisome.’ *Dong-A Ilbo*, in Korean, January 25, 2006, p. 31. Translation by the U.S. Embassy in Seoul. Provided by Open Source Center.

⁶⁴ Hayes Says Counterfeiting Issue Sidetracks Nuclear Negotiations. *Nautilus Weekly*, February 27 - March 3, 2006. Quote by Nautilus Institute Executive Director Peter Hayes speaking on Chicago Public Radio’s Worldview Program.

by the United Nations or by other countries. As was seen in the Banco Delta Asia case, financial sanctions can have far reaching affects and can reach into the heart of Pyongyang.

Japan also seeks to defuse tensions with the DPRK, but Japan has cooperated with the United States in both the Proliferation Security and Illicit Activities Initiatives. In talks in February 2006 on normalization of relations with Pyongyang, Japan announced that it intended to take up North Korea's illicit activities, including counterfeiting, in order to strengthen policy coordination with the United States and the European Union.⁶⁵

The current strategy of the Obama Administration is to protect U.S. interests, to coordinate policy and sanctions toward the DPRK with Japan, South Korea, China, and Russia, to work through the United Nations, and to proceed with unilateral action if necessary. The United States is prepared to engage North Korea in bilateral talks under the Six-Party Talk⁶⁶ umbrella if the DPRK is willing to engage in serious negotiations over its denuclearization.⁶⁷

If the Obama Administration imposes new financial sanctions on the DPRK, they are likely to use counterfeiting of currency as one rationale for the sanctions. The role of Congress in the counterfeiting issue is intertwined with the larger nuclear and proliferation issues. Congress plays a role in oversight of Obama Administration actions, in holding hearings to clarify U.S. policy, or using the congressional pulpit to send messages to North Korea.⁶⁸ The United States has suggested to the DPRK that it join the Asia-Pacific Group on Money Laundering (APG), a 30-member group (including the United States, Japan, and South Korea) launched in 1997 as a sub-organization of the Organization of Economic Cooperation and Development. It is aimed at preventing illegal financial activities in the Asia-Pacific region and would subsequently require the disclosure of all of the DPRK's illicit financial activities.⁶⁹ North Korea experts believe, however, that it will not be easy for the North to join the 30-member group.

The BDA action (combined with UN sanctions prohibiting exports of luxury goods to the DPRK) seemed to generate results because they harmed the North Korean elites, including Kim Jon-Il, directly. Policies aimed at an economic collapse in North Korea, however, appear to be off the table at this time—partly because China seems willing to provide just enough food and fuel to prevent one from occurring because it does not want to deal with the flood of immigrants and economic and political effects that would follow should such a collapse occur.

How the broader strategic considerations will govern future responses to the problem of North Korean counterfeiting of U.S. currency and other crime-for-profit-activity is now unclear. What is clear is that the BDA sanctions made Pyongyang more willing to meet and talk seriously with the United States and other of the six-party countries and they provided real evidence to Pyongyang that flaunting international laws and norms can cause serious negative consequences for its inner circle of elites. In U.S. discussions with the DPRK on the normalization of relations, ceasing any counterfeiting of U.S. currency would seem to be *sine qua non*.

⁶⁵ Japan to raise North Korea's alleged laundering, drug trafficking in talks (From Kyodo News Service), BBC Monitoring Asia Pacific, February 1, 2006. p. 1.

⁶⁶ CRS Report RL33567, *Korea-U.S. Relations: Issues for Congress*, by Larry A. Niksch.

⁶⁷ Stephen Bosworth, Testimony before the Senate Foreign Relations Committee, U.S. Congress, *North Korea, Back at the Brink?*, 112th Cong., 1st sess., June 11, 2009.

⁶⁸ For legislation, see; CRS Report RL33567, *Korea-U.S. Relations: Issues for Congress*, by Larry A. Niksch.

⁶⁹ U.S. asks NK to Join Int'l Group on Money Laundering. Yonhap English News. March 12, 2006.

The implications for U.S. policy of the BDA action go beyond the problems with the DPRK. The Patriot Act has provided the United States with a powerful tool to disrupt the financial underpinnings of unsavory regimes or hostile groups. The use of this tool is still under development, and it is not clear whether it should be employed as an end in itself or as a tactical weapon that is part of a larger strategic plan with ample coordination between the Departments of the Treasury, State, and Defense.

U.S. law enforcement actions against foreign banks and their operations, moreover, have far reaching consequences for an industry that often prefers to be secretive and has operational interests that often compete with each other. Banks must provide service to customers of all kinds and take a loss on counterfeit currency found that is surrendered to government authorities. At the same time they may be asked to cooperate in enforcing laws that may hurt their customers or reduce their earnings. BDA-type actions (which can be seen as sending mixed signals or which are followed by about-face changes in policy) also give rise to the question of what effect they might have on U.S. leverage with the banking community and on cooperation from banks on other international problems. At issue here is whether in the future, foreign banks will be as willing to take measures that will be unpopular with their customers given the risk that the United States may at some point reverse course because national security interests or diplomatic exigencies hold sway?

Author Contact Information

Dick K. Nanto
Specialist in Industry and Trade
dnanto@crs.loc.gov, 7-7754